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~~Top Secret~~**SOUTH AFRICA: ANC Outlines Strategy**

African National Congress leaders meeting in Lusaka capped four days of heated debate on strategy by publicly reaffirming the armed struggle, but they also conveyed a more conciliatory tone, moving the group closer to talks with Pretoria.

The statement, which [redacted] reflected the thoughts of released ANC leaders and was approved by Nelson Mandela, endorsed their role as preliminary interlocutors with Pretoria. Mandela expects President de Klerk to announce moves that would meet key opposition prerequisites for talks when the legislature opens next week, and he believes the tone of the communique will give de Klerk the necessary maneuvering room, [redacted]

Comment: ANC leaders have forged a fragile consensus in favor of pursuing talks but have not yet specified negotiating tactics. They undoubtedly discussed possible responses to concessions that de Klerk may offer next week, like unbanning the group and releasing Mandela; it is unclear whether they reached any decisions. [redacted]

ANC moderates placated hardliners by endorsing efforts to strengthen the organization's military network in South Africa. Hardliners may still be unhappy with the negotiations track—and may occasionally carry out bombings not authorized by political leaders—but they are not strong enough in numbers or influence to seriously challenge the process now. Military leaders may turn to rebuilding their capacity in South Africa to revert to armed tactics if talks break down. [redacted]

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Director of Central Intelligence

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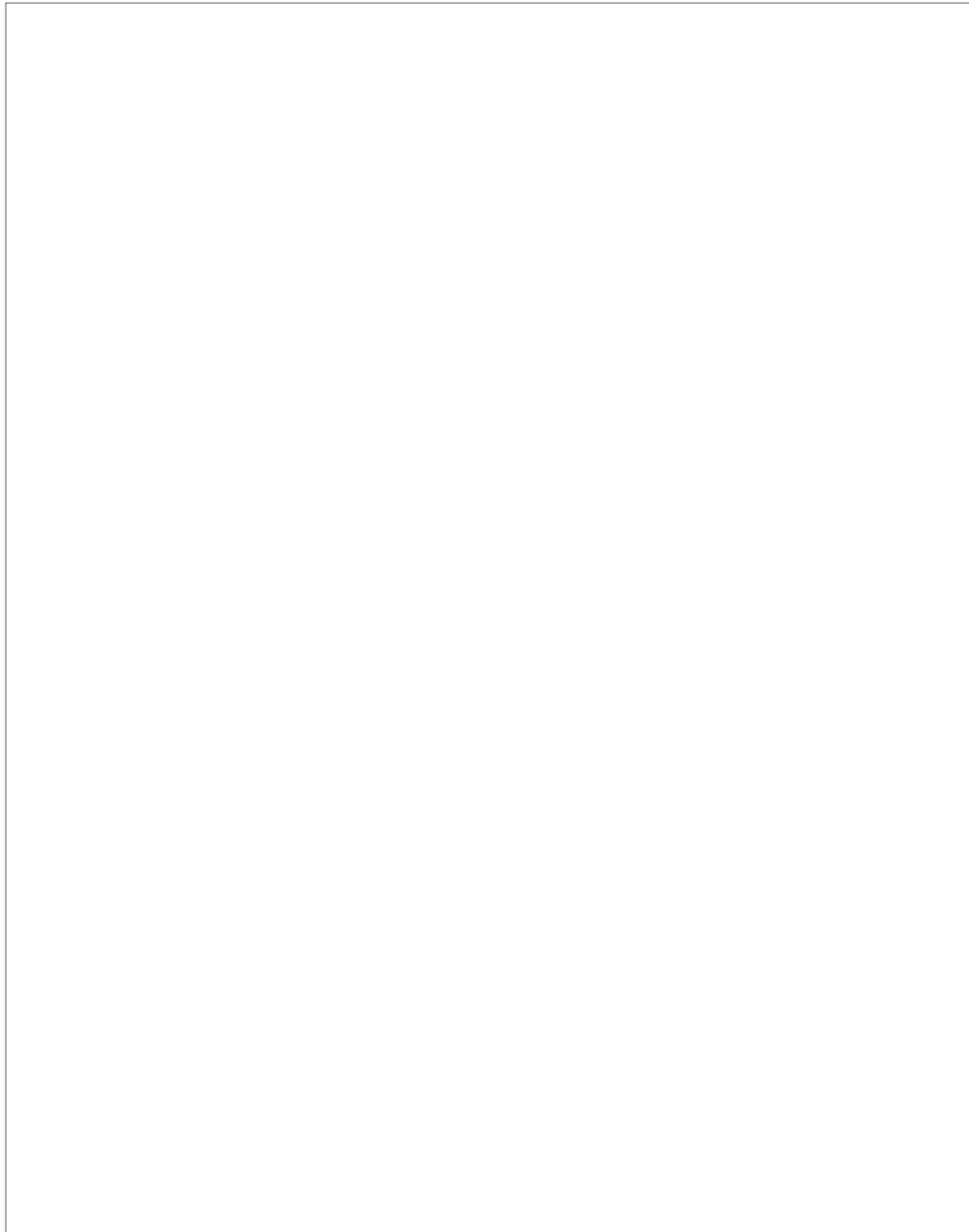
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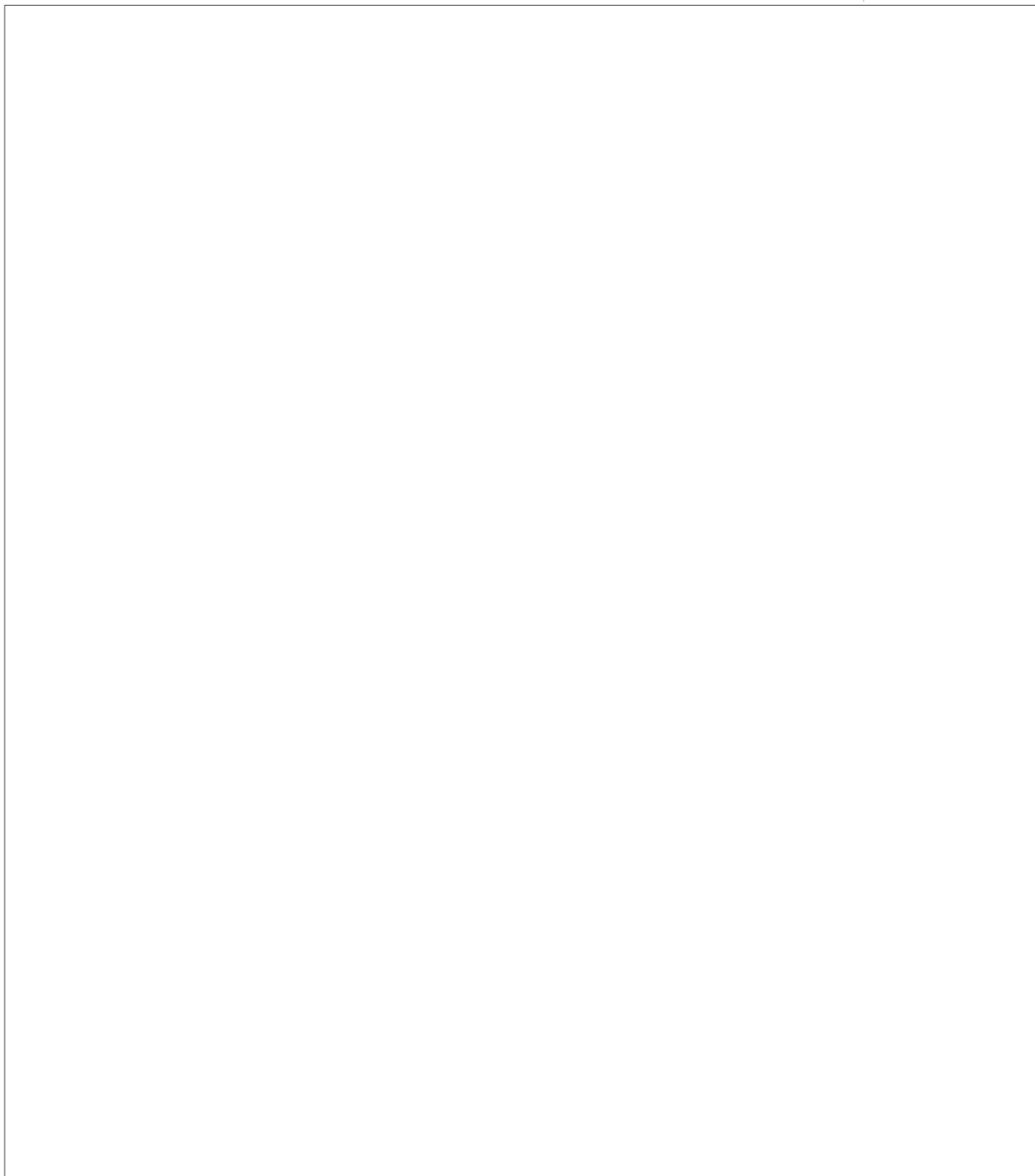
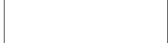


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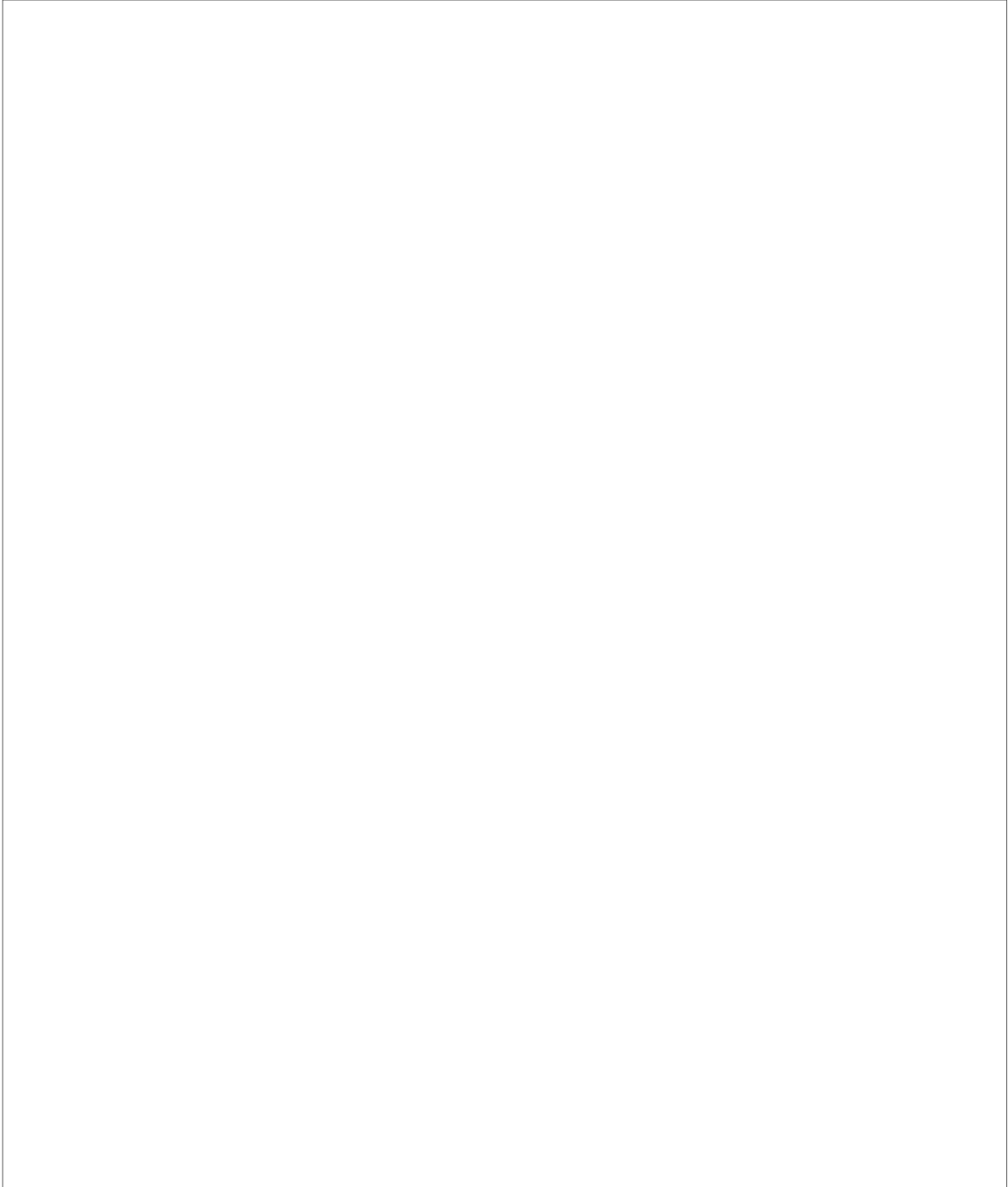


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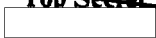
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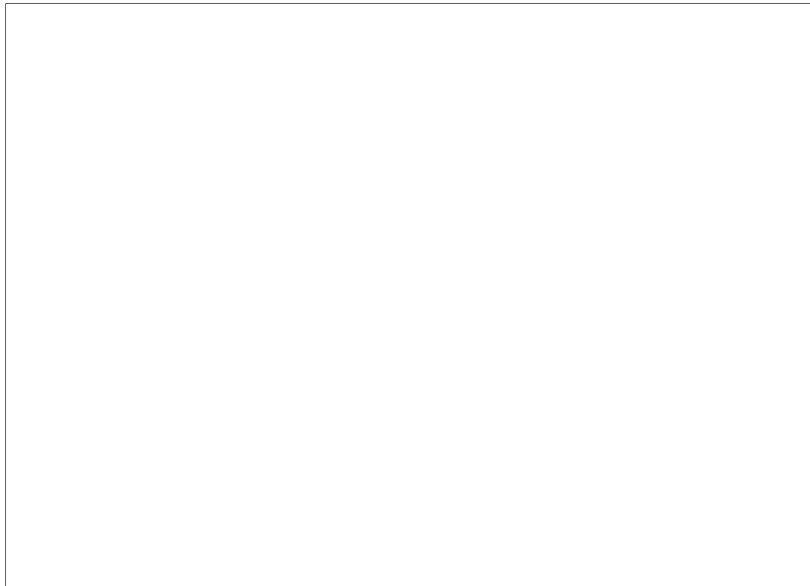
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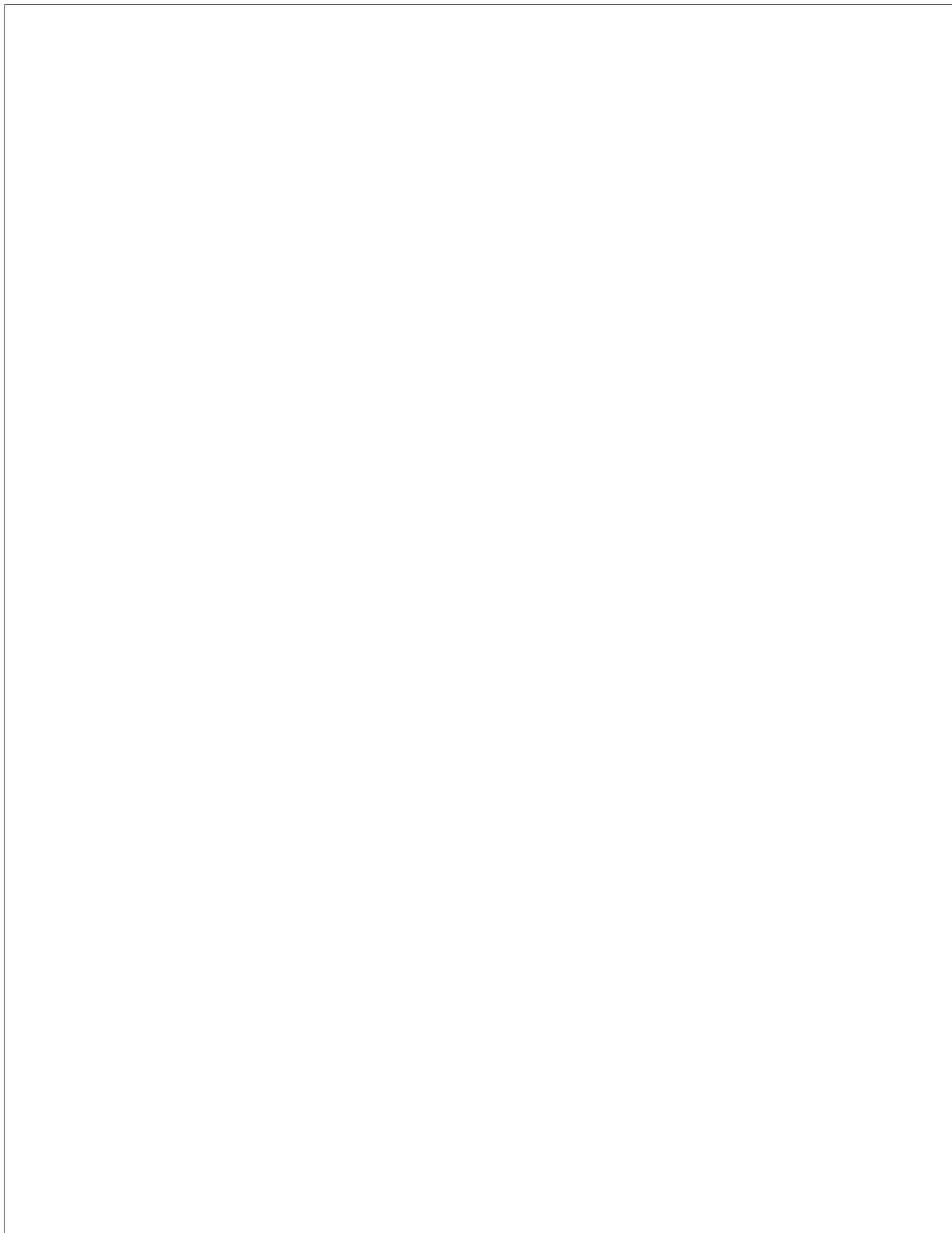


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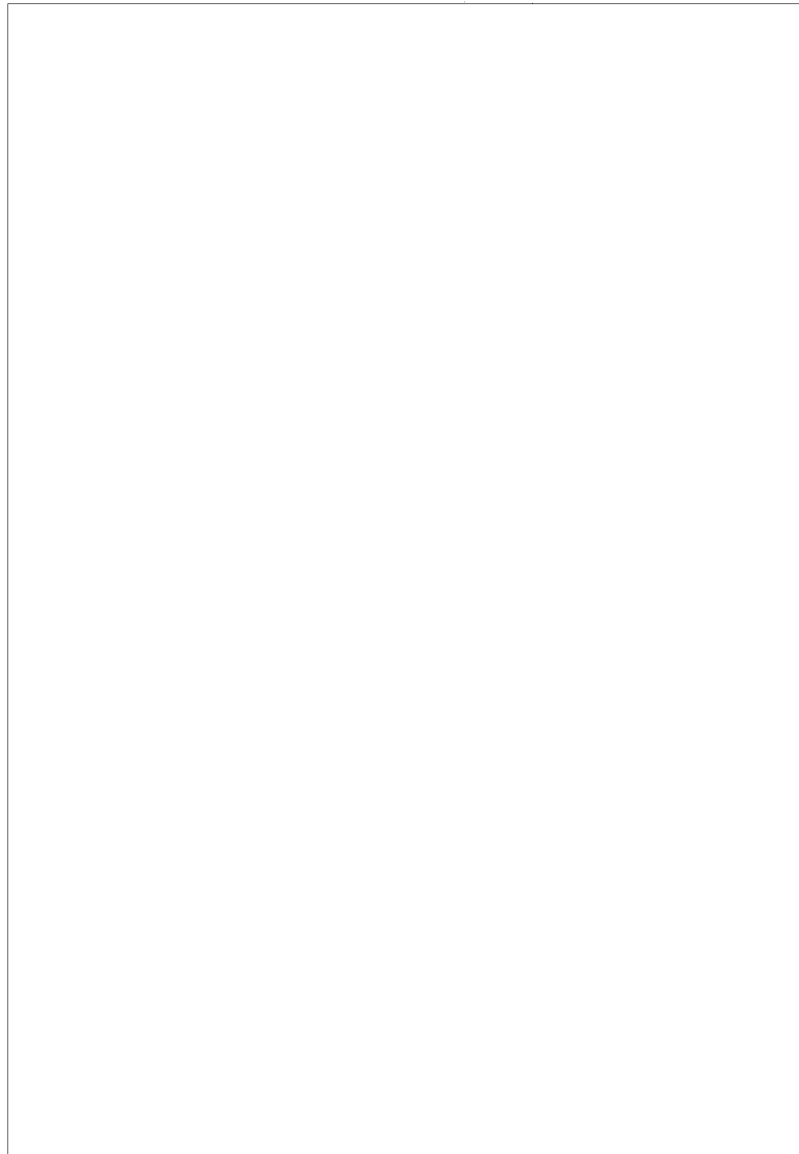
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~~Top Secret~~**CAMBODIA: Prince Sihanouk Resigns Again**

Citing "attacks" by Western government officials, journalists, and intellectuals, Prince Sihanouk today resigned as president of the resistance coalition and from the Supreme Council of the National Defense of Cambodia, according to press reports. He ruled out participation in any international conference or at talks among the Khmer factions. Sihanouk said he would have no contact with the press, diplomats, or politicians except the Chinese and the North Koreans. He claimed to retain the title "President of Cambodia."

Comment: Sihanouk has been criticized sharply in recent months for strengthening his political ties to, and increasing military cooperation with, the Khmer Rouge. His previous resignations also were designed to gain greater diplomatic maneuverability through disassociation, if only symbolically, from partisan organizations. His apparent decision to break external contacts, however, would make him more isolated and more dependent on China. The Prince had already designated his son Prince Ranaritt to represent him at informal talks in Jakarta, which may convene late next month. He also had rejected further talks among the Khmer factions but suggested he may attend a reconvened Paris conference.

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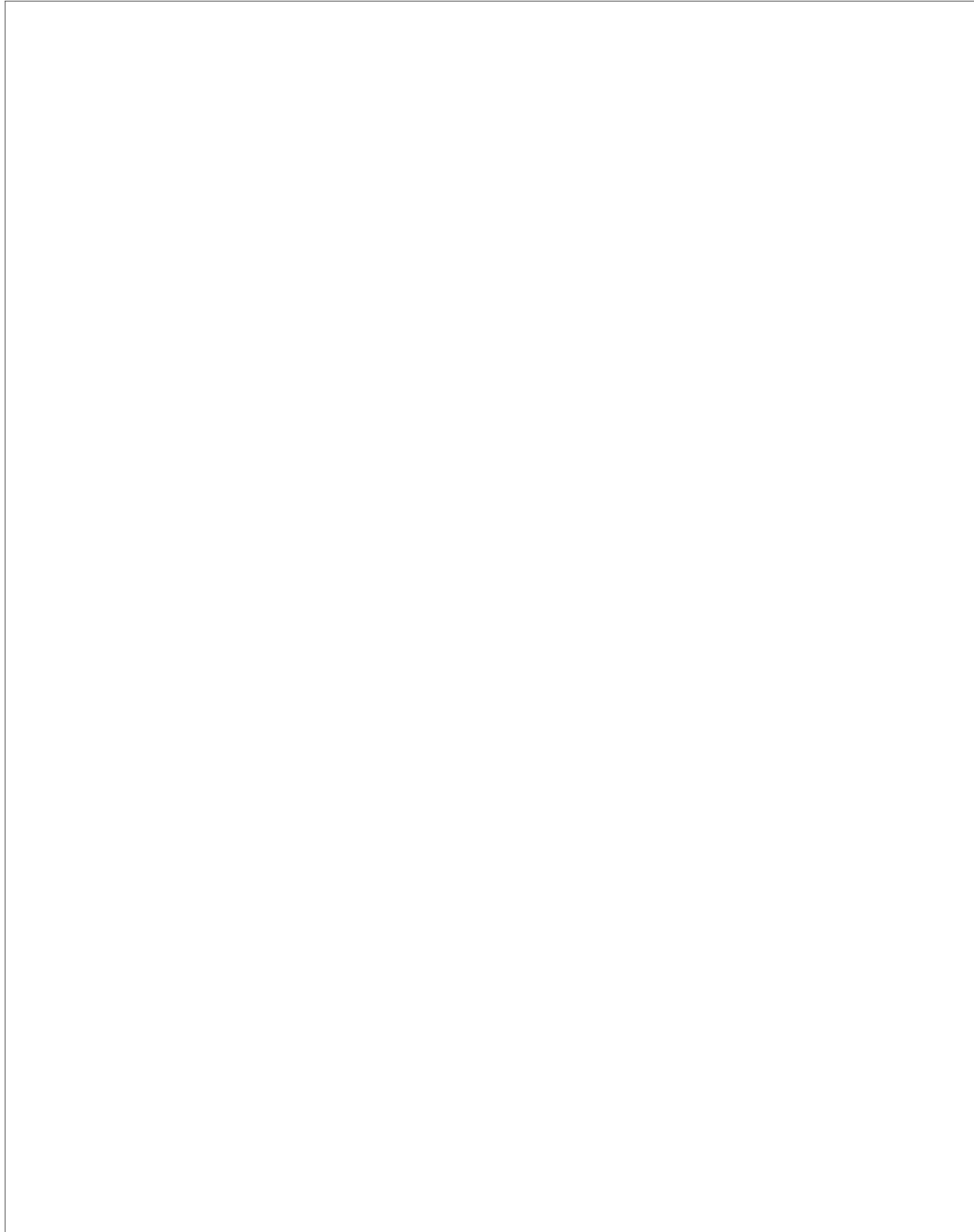


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CHINA:

Austerity Causing Economic Slump

Hardline leaders are claiming victory in their fight against inflation, but official statistics indicate overly restrictive austerity measures are running China's economy aground. [redacted]

Inflation in China grew at a 7-percent annual rate last month, down from a rate of almost 30 percent early last year. [redacted]
[redacted] Industrial output in the fourth quarter, however, rose at less than a 1-percent rate, as compared with an 18-percent increase in 1988. [redacted] 10 percent of state enterprises have shut down and another 20 percent have reduced output significantly because of tight credit. [redacted] declining labor efficiency and dwindling profits of state enterprises are the primary reasons last year's state budget deficit rose 30 percent above its targeted level—to approximately \$9 billion, according to CIA estimates. [redacted]

[redacted] Premier Li Peng and Vice Premier Yao Yilin have a near stranglehold on economic policy and have warned repeatedly that Beijing must continue the austerity policy or risk re-igniting inflation this year. Hardliners intend to shore up state factories by increasing the amount of resources allocated under the central plan. In the fourth quarter, [redacted]
Beijing began easing credit slightly to large state factories and export-oriented enterprises. [redacted]

Comment: The modest easing of credit is not likely to stimulate output significantly in the near term. [redacted] many enterprises are refusing to accept new bank loans because managers believe they cannot make sufficient profits to cover the interest payments. Expansion of planning authority will reduce incentives for increased production and improvements in efficiency by forcing factories to sell goods at low, state-controlled prices. Thus, revenues will probably stagnate while subsidies climb, and the state budget deficit will grow. The continued economic slump almost certainly will intensify political infighting as local leaders push more aggressively for looser credit controls and as reformers in the leadership argue that hardliners have mismanaged the austerity program. [redacted]
[redacted]

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~~Top Secret~~**USSR: Soviet Adviser Comments on German Unification**

Nikolai Portugalov, an adviser to the CPSU Central Committee on German affairs, told West German reporters yesterday that Moscow would not intervene to stop German unification if the East German people wanted it; he added that economic unity of the Germans would enormously benefit the USSR. Portugalov warned, however, that forced acceleration of unification might destabilize Europe and that chaotic unification would serve no one. He said the process should occur only within the "entire European concept." [redacted]

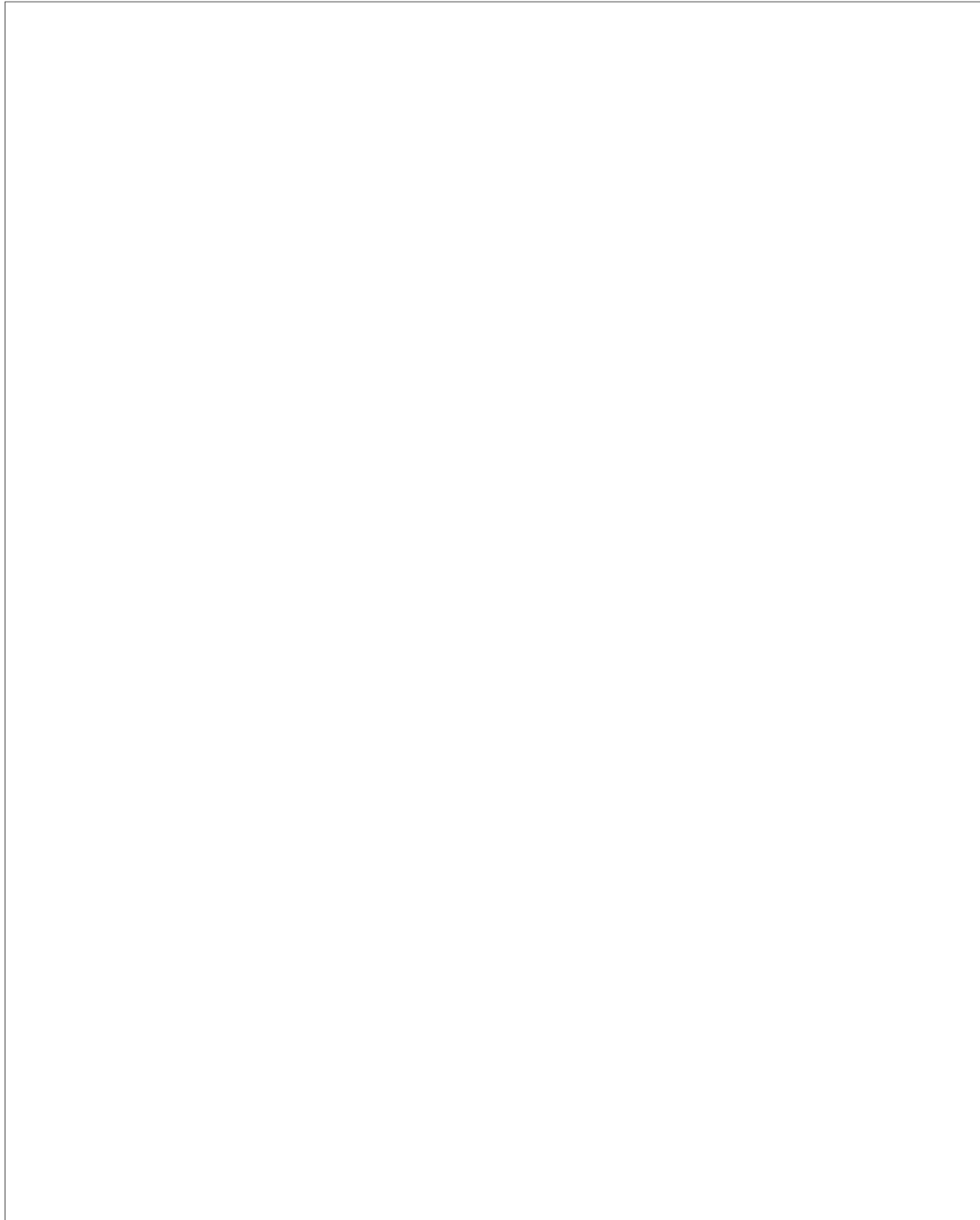
Comment: Portugalov's willingness to grant an interview in West Germany suggests Moscow realizes that, if the East German government elected next May strongly favors unification, it will be difficult for the Soviets alone to delay it for long. The remarks probably are aimed in part at countering any West German perceptions that Moscow intends to block the unification process. His comment that German unity would benefit the USSR economically—an angle not previously included in public Soviet statements—demonstrates Moscow's recognition of the importance of Germany to long-term economic goals. His warnings and caveats, however, reiterate Moscow's longstanding position that unification should occur only as part of broader European integration. Moreover, they reinforce Moscow's appeal for Western help in shaping Europe's political and economic future. [redacted]

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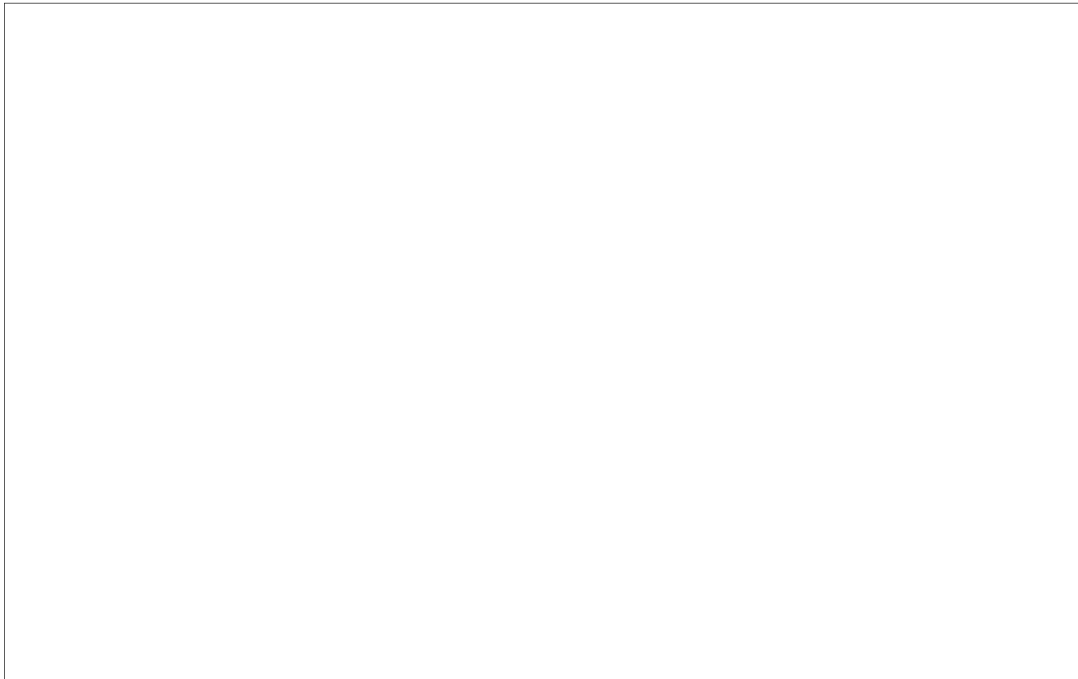


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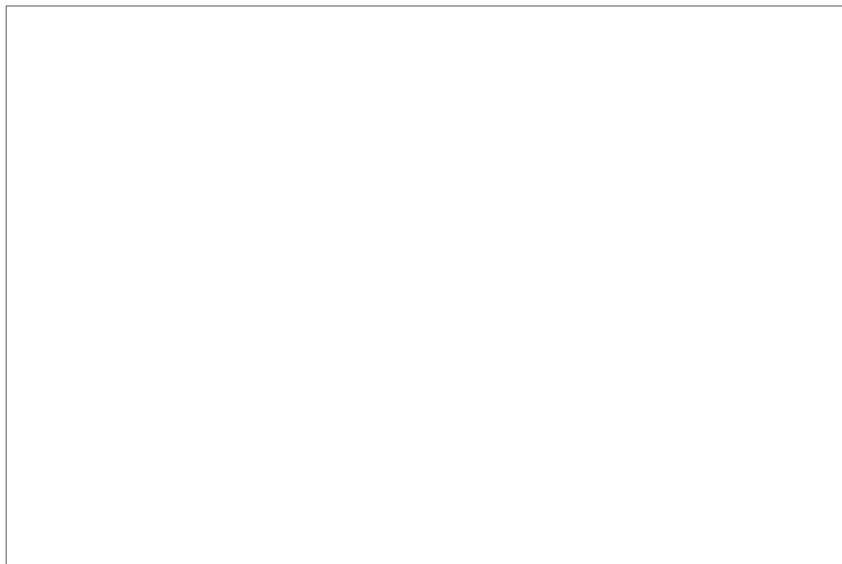
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Implications for the Markovic Government

The tensions within the national party probably will enhance the clout of Premier Markovic's government. Nonetheless, Markovic must surmount imposing obstacles to put Yugoslavia on the road to political and economic health. He will have to persuade powerful regional leaders to agree on badly needed economic reforms; failure to do so would mean the continued decline of an economy already suffering hyperinflation. [redacted]

The government will also have to coax the Army's senior officer corps to accept tighter budgets, a gradual loss of the Army's political role, and a diminution of the military's prestige. Finally, Markovic must obtain help from political leaders in Slovenia and Croatia to brake the secessionist forces that could fragment the country and risk civil war. [redacted]

Grounds for Guarded Optimism

Markovic and other reformists nonetheless have some things working in their favor. Although the secessionist fever might grow apace with nationalist sentiments, the shrill ethnic squabbles that dominate the Yugoslav headlines probably exaggerate the depth of secessionist sentiment. Published polls indicate that even most Slovenes want greater autonomy within Yugoslavia, not secession. [redacted]

The military and security forces have resisted the ethnic divisions that have weakened other Yugoslav institutions, and they continue to support a united Yugoslavia. Memories of a bloody civil war during World War II remain vivid, persuading many Yugoslavs that ethnic tensions must not be permitted to get out of hand. Finally, Yugoslavs—including many in the leadership—have not given up hope that the country can be politically reformed. [redacted]

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~~Top Secret~~**POLAND: Grain Shortages Prompt Aid Request**

Poland's request this week for additional Western food aid might backfire domestically by further alienating farmers hit hard by a sharp drop in incomes resulting from the government's economic reforms. Poland is asking for donations from the EC of 1.2 million tons of wheat and for 1 million tons of US wheat at reduced prices. Last year's harvest was a record, but Warsaw reportedly estimates that private farmers, who produce 70 percent of Poland's grain, are holding 1 million tons of wheat off the market, putting pressure on available grain stocks and driving up bread prices. Prices of farm inputs have risen far more sharply than grain prices, and farmers are refusing to sell their grain until goods are affordable and available.

Comment: The government is facing a dilemma. Recent fourfold increases in meat and energy prices—as well as last week's miners strikes—have made Warsaw desperate to keep at least bread prices low to avoid consumer unrest. But Warsaw also needs to make farm implements more readily available and to raise grain procurement prices to gain farmers' confidence and to stimulate agricultural production. Poland's private farmers already have been badly squeezed and have held onto grain in desperation: flooding the market with foreign grain is likely to trigger farm protests—possibly violent—and erode rural support for Solidarity and the reforms in this spring's local elections. Finally, massive foreign wheat deliveries would keep prices down in the short run but also would discourage planting this spring, laying the groundwork for a cycle of increasing dependence on food aid.

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forced a postponement of the plenum, originally set for late January. Both the program and party statutes are in for major revisions at the next party congress, which will redefine party relations between Moscow and the restive republics on the Soviet periphery. Gorbachev is also likely to try to focus the Central Committee's attention on the Caucasus, where there is an apparent leadership consensus, and play down the urgency of the Lithuanian situation, which would entail Moscow's de facto acceptance of continuing movement toward secession by the Baltic republics.

Possible Moves by Gorbachev

In times of crisis, Gorbachev repeatedly has pressed ahead with reforms rather than retreat. The odds are high that he will try to do so again to regain the political initiative by putting forward some radical political measures. Realizing that current challenges require bold action, he may propose major initiatives to accelerate party reform and create a new federal formula to preserve the union. Recent evidence suggests that the opposition of leading traditionalists Ligachev, Lev Zaykov, and Vitaliy Vorotnikov has weakened, and Gorbachev might remove one or more of them. In addition, retiring the roughly 40 Central Committee members who have recently lost their official posts would remove some pressure on him in that body. Gorbachev probably knows that more leadership changes will neither change the current dismal state of *perestroika* nor lessen the assertiveness of groups unhappy with the pace of reform. To stand pat, however, risks creating the appearance of weakness that is certain to erode his position further.

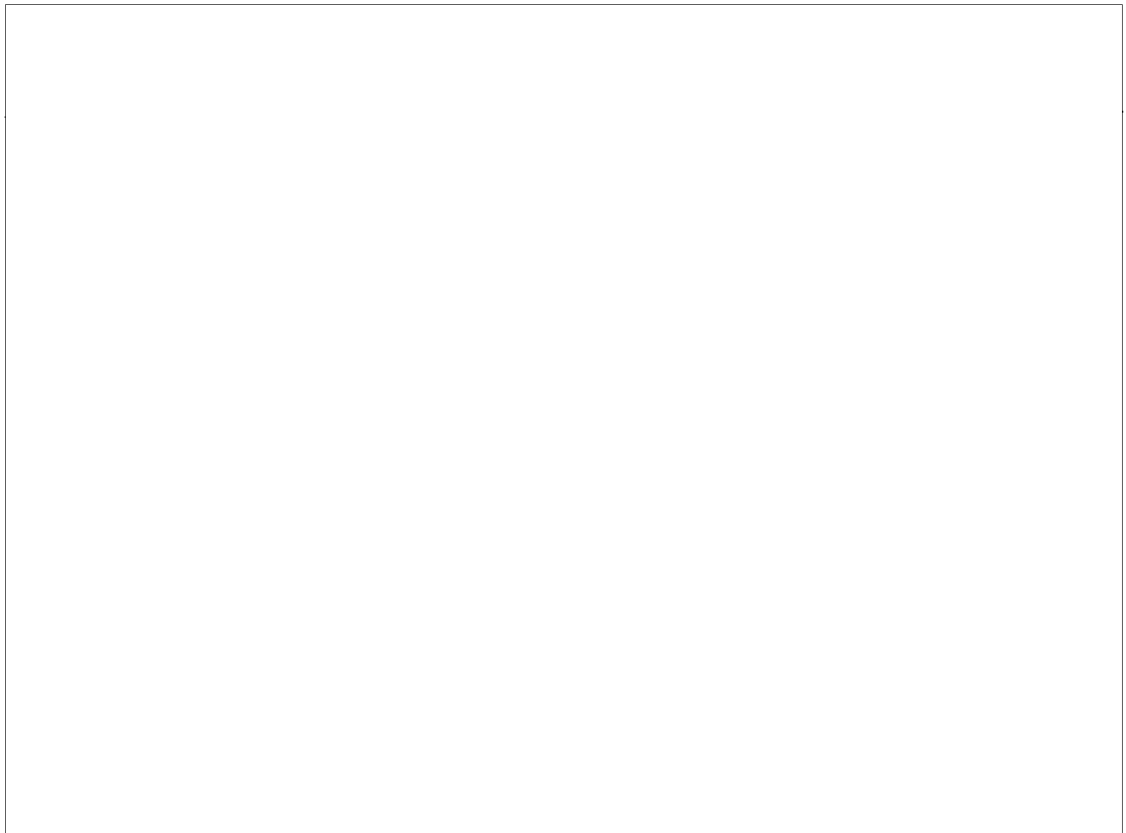
An Alternative Scenario

Gorbachev seems in a position to parry any challenges, but the confluence of crises makes him increasingly vulnerable. While a plot to remove him cannot be ruled out, the most plausible scenario for his opponents is not a direct attempt to unseat him but a move to organize a Central Committee rebellion against current policy. Opponents might challenge his policies in the Caucasus, maintaining that the current military intervention is too late and too costly. They might also hold him increasingly accountable for the growing erosion of the union and the deteriorating economy. In addition, the increasing spontaneity at Central Committee meetings could lead to a debate in which Gorbachev is subjected to harsh criticism. The convergence and intensification of criticism might not lead to Gorbachev's removal but could embarrass and weaken him if he fails to leave the plenum with new policy or personnel successes.

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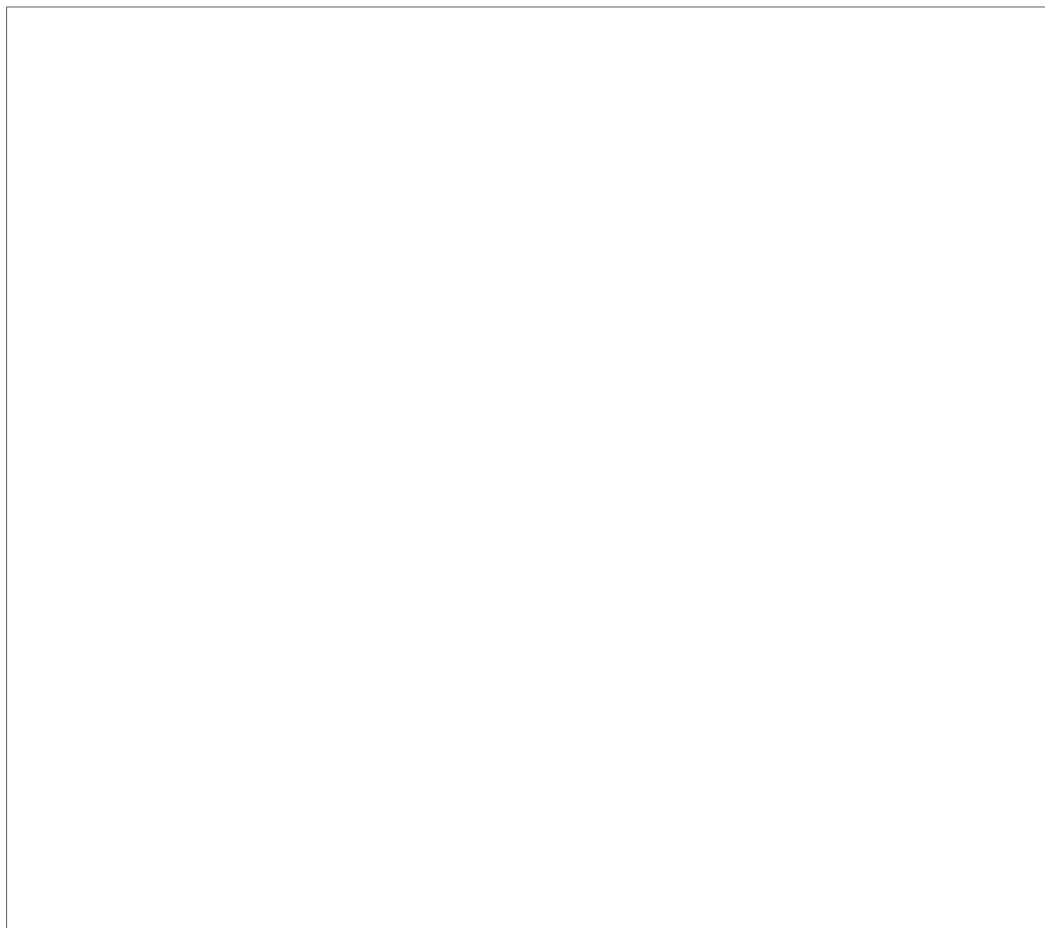


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~~Top Secret~~**Special Analysis****USSR: Gorbachev's Position Strong but Not Unassailable**

Despite current crises, President Gorbachev still appears to have the power to preempt his opponents with a new initiative at the plenum, now scheduled for 5-6 February; failure to do so would be a sign of weakness and would be likely to erode his political authority. The plenum will convene at a time when his control of events is eroding and attacks on his stewardship are growing.

A common refrain among Soviets is that the USSR is worse off than it was five years ago. *Perestroika's* negative side effects increasingly are providing opponents of reform evident policy failures to point to. Baltic defiance, a deteriorating economy, growing ethnic violence, and the fall of Communist regimes in Eastern Europe are seen as signs of Gorbachev's indecisiveness as his "restructuring" spins out of control.

Gorbachev faces growing criticism within the party. Recent Central Committee plenums have been stormy, reportedly including calls for Gorbachev to follow through on his frequent threats to resign. He faces a simmering rebellion from opponents of reform in the Russian Republic party apparatus, and party secretary and orthodox spokesman Ligachev has said not everyone in the Politburo is pleased with the course of events in Eastern Europe. Moreover, the traditionalist press has attacked the excesses and mistakes of *perestroika*, implicitly indicting Gorbachev's leadership.

Gorbachev's opponents remain disorganized and lack a credible program. Even in the face of sharp criticism at recent plenums, the General Secretary has succeeded in neutralizing the orthodox opposition in the Politburo and continued to shape policy. He kept his opponents from controlling the new Russian Republic party bureau by assuming its leadership, adding to his impressive list of posts as head of the party, chief of state, and chairman of the Defense Council. The Politburo, moreover, has maintained a show of unity since sweeping changes in its makeup last September. Although members have a range of opinions on how to deal with problems like the issue of Lithuanian secession, Gorbachev's opposition to using force has carried the day, drawing support even from Ligachev. Gorbachev, at least for now, may be able to point to Moscow's military response to ethnic violence in the Caucasus as an example of his leadership.

The plenum probably will shed new light on divisions within the Central Committee and on how far they extend into the Politburo. Differences in the Politburo over the draft party program apparently

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Special Analysis

YUGOSLAVIA: Prospects for Stability

The Communist party congress that ended Monday did little to clarify uncertainties about Yugoslavia's future. Sharp conflicts and a walkout by the Slovene delegation will erode the party's prestige and authority and will speed movement toward a multiparty system, but they may also aggravate the ethnic tensions at the root of the country's instability.

The congress voted for a multiparty system, abolishing the Communist party's constitutionally-mandated leading role, and endorsed greater protection for human rights. These steps amount to an endorsement of the liberal platform championed by the Slovenes, who nonetheless walked out after losing a vote that would have enhanced the autonomy of the republic parties. The refusal by the other republics to endorse Serbia's effort to continue the congress without the Slovenes was a defeat for Serbian strongman Milosevic.

Movement to a Multiparty System

The practical effects of the party's breakup are likely to be minimal; the national party has been paralyzed for the past two years by internal differences and has made few meaningful decisions. Endorsement of a multiparty system represents a belated recognition of a political trend that has already gained significant momentum. There are already some 40 opposition political parties in the country, some with as many as 70,000 members.

Of Yugoslavia's eight republics, Slovenia and Croatia are already planning to hold multiparty elections this spring; Montenegro, Macedonia, and Bosnia are moving more cautiously in the same direction. Even orthodox Serbian leaders now publicly support a multiparty system, a largely meaningless concession because no elections are scheduled in Serbia until 1994.

The evolution toward a multiparty system will do little to ease ethnic tensions and may make them worse this year. The new parties may pander to nationalist, and even secessionist, sentiments. Parties with nationalist agendas have already been formed in Serbia, Slovenia, and Croatia.

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